

## Balance of payments in the third quarter of 2003 and the external position

The deficit on Iceland's current account in the third quarter of 2003 amounted to 13.2 billion kr. according to preliminary figures from the Central Bank. In the third quarter of last year the current account was in surplus by 1.9 b.kr. The current account deficit amounted to 32.3 b.kr. over the first nine months of 2003, compared with a 2.1 b.kr. deficit over the corresponding period 2002. Measured at fixed exchange rates<sup>1</sup>, exports of goods and services contracted by 0.8% while imports increased by 13.4% from the same period the previous year. The combined deficit on the income account (compensation of employees and investment income) and current transfer was 15.9 b.kr. in the first nine months of 2003, which was somewhat less than in the same period last year.

### *Balance of payments in b.kr.*

<i>Quarter:</i>	<i>July-September</i>		<i>January-September</i>	
	<i>2002</i>	<i>2003</i>	<i>2002</i>	<i>2003</i>
<b>Current Account</b>	<b>1.9</b>	<b>-13.2</b>	<b>-2.1</b>	<b>-32.3</b>
Exports of goods and services	80.8	79.0	236.5	217.4
Imports of goods and services	-75.6	-87.4	-222.5	-233.8
Income and current transfer, net	-3.4	-4.8	-16.1	-15.9
<b>Capital and Financial Account</b>	<b>-12.3</b>	<b>16.9</b>	<b>5.7</b>	<b>51.0</b>
Financial account excl. reserves	1.4	26.4	22.5	60.9
Reserve assets (- increase)	-13.6	-9.6	-16.7	-9.8
<i>Net errors and omissions</i>	10.4	-3.7	-3.6	-18.7

Capital inflow measured 51 b.kr. during the first nine months of the year, mainly explained by foreign borrowing; bank loans and debt securities abroad. The net capital inflow of domestic banks was 102 b.kr. over this period. Capital outflows in connection with portfolio investment abroad amounted to 27.5 b.kr., which is considerably more than the same period the year before. A high level of other investment was recorded in the first nine months of 2003, in particular in the form of foreign deposits and lending by Icelandic banks. Some outflow reflected foreign direct investment by residents net of foreign direct

<sup>1</sup> The trade-weighted exchange rate index was 7.3% lower during the first nine months of 2003 than in the same period the previous year.

investment in Iceland. The Central Bank's foreign reserves amounted to 46.4 b.kr. at the end of September and had risen by 9.6 b.kr. during the third quarter.

The large negative figure for errors and omissions during the first nine months is assumed to result from lags in the reporting of capital outflows, in the form of either increased assets or decreased liabilities.

Iceland's net international investment position was negative by 596 b.kr. at the end of September, 24 b.kr. more than at the beginning of the year. The main factor at work was the current account deficit, but this was offset to some extent by the appreciation of the króna and an increase in the value of foreign portfolio investments. Detailed information on the balance of payments and external position is presented in the attached tables.

On, Monday 1 December 2003, the Central Bank has published tables showing the balance of payments and external position on the Statistics page of its website ([www.sedlabanki.is](http://www.sedlabanki.is)).

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## BALANCE OF PAYMENTS

<i>m.kr.</i>	July- September		January- September		<i>change<sup>1</sup> on prev. year</i>
	2002	2003	2002	2003	
<b>Current Account</b>	<b>1,911</b>	<b>-13,223</b>	<b>-2,123</b>	<b>-32,266</b>	
Exports of goods and services	80,831	79,023	236,523	217,430	-0.8%
Imports of goods and services	-75,550	-87,428	-222,512	-233,754	13.4%
Balance on income and current transfer, net	-3,370	-4,818	-16,134	-15,942	6.6%
<b>Balance on Goods</b>	<b>658</b>	<b>-10,878</b>	<b>11,392</b>	<b>-10,997</b>	
Merchandise exports f.o.b.	48,228	43,965	155,546	137,086	-4.9%
Merchandise imports f.o.b.	-47,570	-54,843	-144,154	-148,083	10.9%
<b>Balance on Services</b>	<b>4,623</b>	<b>2,473</b>	<b>2,619</b>	<b>-5,327</b>	
Exports of services, total	32,603	35,058	80,977	80,344	7.1%
Transportation	15,068	15,563	40,228	38,522	3.4%
Travel	9,742	11,314	18,243	19,756	16.9%
Other receipts	7,793	8,181	22,506	22,066	5.8%
Imports of services, total	-27,980	-32,585	-78,358	-85,671	18.0%
Transportation	-10,907	-11,760	-30,138	-30,243	8.3%
Travel	-9,687	-11,945	-24,956	-29,195	26.3%
Other expenditures	-7,386	-8,880	-23,264	-26,233	21.7%
<b>Balance on Income, net</b>	<b>-5,539</b>	<b>-4,409</b>	<b>-17,773</b>	<b>-15,432</b>	
Receipts	3,622	4,551	10,955	12,996	28.0%
Compensation of employees	1,352	1,649	3,882	4,656	29.4%
Interest and investment income received <sup>2</sup>	2,270	2,902	7,073	8,340	27.3%
Expenditures	-9,161	-8,960	-28,728	-28,428	6.8%
Compensation of employees	-128	-83	-591	-360	-34.3%
Interest and investment income paid <sup>2</sup>	-9,033	-8,877	-28,137	-28,068	7.7%
<b>Current transfer</b>	<b>2,169</b>	<b>-409</b>	<b>1,639</b>	<b>-510</b>	
<b>Capital and Financial Account</b>	<b>-12,274</b>	<b>16,928</b>	<b>5,747</b>	<b>50,988</b>	
Capital transfer, net	-32	51	-61	-77	
Financial account <sup>3</sup>	-12,242	16,877	5,808	51,065	
<b>Financial Account excl. reserves</b>	<b>1,389</b>	<b>26,439</b>	<b>22,519</b>	<b>60,862</b>	
Direct investment, net	530	-1,759	-3,378	-1,397	
Abroad	-250	-2,328	-6,602	-2,483	
In Iceland	780	569	3,224	1,086	
Portfolio investment, net	12,966	46,773	40,806	130,043	
Assets	-11,556	-13,373	-18,248	-27,470	
Equities	-8,776	-11,471	-15,313	-23,486	
Debt securities	-2,780	-1,902	-2,935	-3,984	
Liabilities	24,522	60,146	59,054	157,513	
Equities	289	453	-1,971	-3,839	
Debt securities	24,233	59,693	61,025	161,352	
Other investment, net	-12,107	-18,575	-14,909	-67,784	
Assets	-1,678	-4,135	-25,885	-53,320	
Liabilities	-10,429	-14,440	10,976	-14,464	
<b>Reserve assets</b>	<b>-13,631</b>	<b>-9,562</b>	<b>-16,711</b>	<b>-9,797</b>	
Net errors and omissions	10,363	-3,705	-3,624	-18,722	

1) Calculated at fixed prices based on the average exchange rate index of the króna.

2) Dividends and reinvested earnings.

3) Negative number represents capital outflow due to increase in assets or decrease in liabilities.

## EXTERNAL POSITION

<i>End of period in b.kr.:</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>June* 2003</i>	<i>September* 2003</i>
<b>I. Total assets</b>	<b>315.8</b>	<b>421.1</b>	<b>394.2</b>	<b>474.0</b>	<b>508.5</b>
1 Direct investment abroad	56.2	86.7	86.6	86.7	89.4
11 Equity capital	41.0	66.6	70.9	72.7	76.1
12 Other capital	15.2	20.2	15.7	13.9	13.3
2 Portfolio assets	186.3	202.5	159.3	190.8	207.9
21 Equity capital	179.7	188.0	148.9	178.3	193.5
22 Debt securities	6.6	14.6	10.4	12.5	14.5
221 Bonds and notes	3.6	11.8	9.6	12.0	14.2
222 Money-market instruments	3.0	2.8	0.8	0.5	0.3
3 Financial derivatives	0.0	0.0	0.0	0.0	0.0
4 Other investment, assets	39.1	95.2	111.1	159.7	164.8
5 Reserves	34.2	36.6	37.2	36.9	46.4
<b>II. Total liabilities</b>	<b>763.6</b>	<b>1,009.9</b>	<b>967.0</b>	<b>1,048.5</b>	<b>1,104.9</b>
1 Direct investment in Iceland	41.5	69.5	64.6	57.9	55.1
11 Equity capital	33.1	63.7	60.2	55.0	52.1
12 Other capital	8.5	5.9	4.3	2.9	3.0
2 Portfolio liabilities	346.7	468.0	468.3	567.8	636.7
21 Equity capital	1.2	5.6	7.9	4.2	5.0
22 Debt securities	345.5	462.4	460.4	563.6	631.6
221 Bonds and notes	299.2	379.4	388.4	450.4	529.5
222 Money-market instruments	46.3	83.0	72.0	113.3	102.1
3 Financial derivatives	0.0	0.0	0.0	0.0	0.0
4 Other investment, liabilities	375.3	472.4	434.2	422.7	413.2
41 Long-term loans	288.1	377.0	295.4	268.3	259.7
42 Short-term debt	87.2	95.4	138.8	154.4	153.5
<b>International investment position</b>	<b>-447.8</b>	<b>-588.8</b>	<b>-572.8</b>	<b>-574.5</b>	<b>-596.4</b>
1. Equity capital, net	193.1	199.6	163.0	202.8	222.8
2. Net external debt position	-640.9	-788.4	-735.8	-777.3	-819.2
21 Central Bank	18.6	21.7	20.8	32.6	46.2
22 General governments	-167.4	-239.6	-225.4	-217.0	-219.4
23 Deposit Money Banks	-329.5	-377.4	-366.7	-419.5	-474.5
24 Other sectors	-162.6	-193.2	-164.6	-173.4	-171.6
<i>Exchange rate, ISK per USD</i>	84.47	102.95	80.58	76.38	75.89
<b>IV. External debt ratio: <sup>1</sup></b>					
11 Intern. investment position	-64.0	-76.3	-79.7	-71.1	-72.7
12 Net external debt <sup>2</sup>	91.6	102.1	102.4	96.1	99.9
13 External debt position <sup>3</sup>	103.1	121.1	124.5	122.0	127.4
131 Of which long-term debt	84.0	98.0	95.2	88.9	96.3

\*) Preliminary figures

1) GDP is calculated at a corresponding exchange rate to that of external debt at the end of the period.

2) Net debt (liabilities less assets) excluding equities.

3) Total liabilities less equities.